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Alberta Government Telephones



ANNUAL REPORT

For the Fiscal Year Ending

December 31st, 1923

PRINTED BY ORDER OF THE LEGISLATIVE ASSEMBLY



EDMONTON:

Printed by J. W. JEFFERY, King's Printer.

1924

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1924

EDMONTON, Alberta, March 14, 1924.

To His Honour

ROBERT GEORGE BRETT,

Lieutenant Governor of the Province of Alberta,

Edmonton, Alberta.

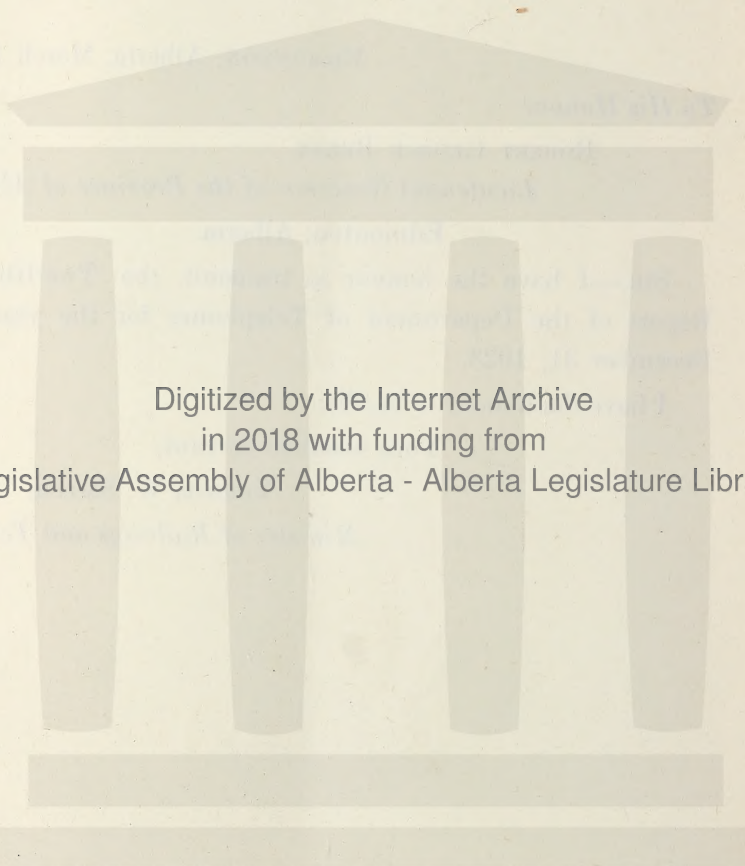
SIR,—I have the honour to transmit the Twelfth Annual Report of the Department of Telephones for the year ending December 31, 1923.

I have the honour to be, Sir,

Your obedient servant,

VERNOR W. SMITH,

Minister of Railways and Telephones.



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EDMONTON, Alberta, March 14, 1924.

THE HONOURABLE VERNOR W. SMITH,
Minister of Railways and Telephones,

Edmonton, Alberta.

SIR,—I have the honour to submit herewith the Annual Report of the Telephone Department which has been compiled by the General Manager for the year ending December 31st, 1923.

I have the honour to be, Sir,

Your obedient servant,

JOHN CALLAGHAN,
Deputy Minister of Railways and Telephones.

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EDMONTON, Alberta, March 14, 1924.

JOHN CALLAGHAN, Esq.,

Deputy Minister of Railways and Telephones,

Edmonton, Alberta.

SIR,—I submit herewith the Twelfth Annual Report of the Alberta Government Telephones for the year ending December 31st, 1923.

CONSTRUCTION.

Exchange Plant Extensions.

During the year no extensions were made to our Exchange System excepting to install telephones on the existing Plant. In this way 802 telephones were added at a cost of \$104,395.00, which would be on an average of \$130.17 per telephone. This figure covers a complete installation, including Central Office additions, pole and line construction and the necessary apparatus and wiring at the subscribers' premises. It is based on the difference between a gross addition of 5232 telephones and a removal of 4430 telephones. This programme met the demand for exchange construction in the Province during 1923.

Toll Line Extensions.

There were no additions to the Toll line Plant during the year. In fact, the investment in Toll lines was reduced by \$8,966.17, due to transfers being made from Toll to Rural and Exchange Lines. Repeater Equipment was added to our Toll Line Plant at Medicine Hat and Long Distance service was extended to all parts of the Province of Saskatchewan and Manitoba. These increased facilities were given with very little cost, and have opened up a new field for business which is extending rapidly.

Rural Plant Extensions.

During 1923 there were 511 telephones added to our Rural System on Estimates or new extension work, throughout the Province, and in addition to these there were 1084 telephones added to the System on routine work, which means that these telephones were added to the existing Plant without very much additional construction. The total cost of this work was \$191,214.08. At the same time there were 1962 rural telephones removed, leaving a net loss of 367 rural telephones and an added investment of \$191,214.08.

Operation and Maintenance.

The service of the Telephone System was kept up to a good standard during the year, and made as popular as possible, with a view to increasing the volume of business. At the same time operating costs were reduced by \$74,462.81, notwithstanding the fact that Telephone Revenue was \$1,916.00 more than during 1922. The Plant was maintained at a high standard, and this work was also carried on with a reduction of \$18,378.20 over the

previous year, despite the fact that the Plant was increased by \$1,501,761.17 in 1922 and by \$289,603.54 in 1923. The total reduction in operating expenses over the period was \$92,841.01.

I would also like to mention that during the year Long Distance service, which was extended to Manitoba and Saskatchewan, has been increasing every month, till we are now interchanging 2,500 calls a month with Saskatchewan and Manitoba. This business is gradually extending further, and we are getting calls into Chicago, Minneapolis, and other points of the United States. We have extended our service across the line to Montana, and are getting a considerable amount of business from the cities of Great Falls, Butte, Shelby and other points. It is our intention to still further extend this service, and we feel satisfied that in a very few months Long Distance service will be in effect between Alberta and many other sections of the United States, including the Coast cities and some Eastern points.

Business Conditions.

Business conditions throughout the entire Province were not the best, particularly during the first seven months of the year, and the telephone business, in common with others, suffered during that period. Revenue from our Long Distance lines was \$90,000 less than could have been expected reasonably under normal conditions, while Rural Revenue was \$40,000 and Exchange Revenue \$30,000 lower. This means that we were short \$160,000 in Revenue of what reasonably could have been expected.

We have a Toll Line Plant which will carry \$300,000 more business than we are getting. On our Rural Plant we have been adding new lines and taking out rural telephones during the last two years. The net result is that we are left with 1176 miles of "dead" line, which is earning nothing and is costing money to carry. Last year we had a net loss of 367 rural telephones, with an addition of \$191,214.08 to our Rural Plant. This money was spent on new extensions, and the addition of 1595 rural telephones to the Plant. At the same time 1962 telephones were removed, which means that we are in a worse position to-day with our Rural Plant than we were at the beginning of the year insofar as investment is concerned, because we increased our investment and had a net loss in subscribers. The following analysis of Rural take-outs will show why these telephones are being removed:

Moved	896
Leaving for the winter.....	53
Leaving the Country.....	93
Sold property.....	20
Removed for non-payment.....	323
Destroyed by Fire.....	41
Could not afford to keep service.....	233
Service not required.....	171
No reason given.....	102
Made Assignment.....	4
Deceased.....	13
Refused to pay moving charges.....	4
Given Local Service.....	9

Total..... 1962

From the above analysis it will be seen that very little can be done to retain these telephones, as they are not being removed for any particular cause that could be remedied. Unfortunately, these removals have kept up through December of 1923, and while we feel that conditions have taken a turn for the better, we are yet uncertain as to the results during the first few months of 1924. The rest will depend entirely on crop conditions in 1924.

We had a gain of 802 telephones in our exchanges throughout the Province. This has improved our position in Exchange Revenue, and means that we are in a better position to-day than we were a year ago, and while we would like to have seen greater improvement and more extension work in our Exchange service, the fact that there is an improvement is encouraging.

Including Exchange and Rural service, we installed 6827 telephones and took out 6395 during the year, leaving a net gain of 432 stations. Our Long Distance Revenue fell away, giving us \$31,441.20 less in 1923 than in 1922, when reasonably we could have expected an increase had conditions been normal. We have gone into this situation thoroughly, checked our business with others, and find that similar conditions prevail in the general field of business in the Province. Therefore we could not apply a remedy, feeling that it was largely a matter of business depression.

This was proven by the fact that our heavy losses were sustained during the first seven months of the year. From September on to December, conditions improved considerably, and our Toll business was better during those months than it was in 1922, and starting in with 1924 it looks as though we shall increase our Toll revenue during the year.

Financial.

We are setting up a financial statement this year in our Annual Report which is a little different from any shown in previous years. We have checked over our material accounts and written down our pole stocks, bringing them down to present day prices, and setting the amount up as an Intangible Asset to be written off over a period of years.

Materials were not written down last year because we were hardly in a position to fix values until we had determined what prices could be secured and what sales made. Our business this year will barely pay operating expenses, including interest, and will not take care of the Sinking Fund or any Replacement Reserve. With the Sinking Fund added, there is a deficit of \$116,755.46. I will deal with the necessity of setting up a Replacement Reserve later in this Report.

Comparing with 1922, we are \$94,757.95 better off in Telephone Revenue and Telephone Expense, but we are short \$218,677.41 in other revenue, such as Interest on Construction in Process, and miscellaneous revenues which have made a considerable difference in our Balance Sheet. It is not likely that this revenue will change very much in the future, the majority of it coming from Directory earnings, charges on moves, and charges on installation.

Naturally, the 1921 and 1922 Revenues were increased considerably by the large construction programme, which provided a very much greater miscellaneous revenue. I am pointing these facts out to show that actual telephone revenue is not suffering and that expenses are decreasing. The following will show the relative position of telephone earnings and telephone expense in the last three years:

Telephone Earnings. Telephone Expense.

1921.....	\$2,247,277.14	\$1,431,670.96
1922.....	2,359,551.22	1,380,563.54
1923.....	2,361,468.16	1,287,722.53

It will be noticed that while the Telephone Revenue has increased by \$114,191.02 Telephone Expense has decreased by \$143,948.43, and the condition is steadily improving. I might explain that Interest on the Investment, Sinking Fund and Replacement Reserve are not considered strictly Telephone Expense, which includes only the Operation and Maintenance of the Telephone Plant, expenses which can be controlled. Moreover, telephone earnings do not include miscellaneous revenue, over which there is little control. Uncontrollable expenses have been steadily increasing, and the following will give some idea of the conditions:

Interest and Sinking Fund.

1919.....	\$ 517,222.16
1920.....	622,454.49
1921.....	991,029.61
1922.....	1,347,426.45
1923.....	1,340,686.00

From the above statement it will be seen that Interest on the Investment and Sinking Fund has increased by \$823,463.84 in five years. During these years the money which was borrowed went into Plant at high prices. The cost of subscribers' stations was greatly increased, while the rates for service remained unchanged. An investment of \$1,500,000 was made in poles and other materials, all of which have not been used and cannot be used for some time to come. This means that there are interest, insurance and storage, as well as other carrying charges, on this stock which add \$110,000.00 per year to our operating expense.

I would also like to point out that we are carrying on the books of the Telephone Department an amount of \$845,965.00 in Bond Discounts, which have not been taken care of in the past, and on which we are obliged to pay interest. We are arranging that future Bond Discounts will be written off over the life of the Bonds, and that Bond Premiums will be taken in as revenue in the same way.

I would also like to draw attention to an amount of \$334,847.00 which appears on our Balance Sheet under the heading of "Accrued Interest." This has been set up to show the full amount of Interest due at the date the books closed. It has been the policy of the Department in the past to pay the interest bills when they come due and pay no attention to accrued interest.

While this will have no particular effect on the Profit and Loss account, we are showing it in the balance sheet so that the exact condition will appear. I would also like to explain that while this accrued interest has not been appearing, we are at the present time, and have been, paying a full twelve months' interest in every year.

Our interest bill will not increase to any great extent during the next few years unless new money is borrowed, which should not be necessary, as we have in the neighbourhood of \$1,700,000.00 of unspent Capital to our credit now. Most of this has been carried since 1921. All of this surplus money which can be invested in safe securities, and is drawing approximately the same amount of interest as we are paying for it. A considerable amount of the money, however, is being used as working capital, due to the fact that we are not earning sufficient money to carry our own accounts and other items such as are usually required for working capital in a business of this kind.

The charts appended hereto will indicate the condition of our business during the last three years and the improvements which have been and are being made.

Material.

Our stocks of material at the present time are valued at \$808,937.64. This includes \$261,718.21 worth of poles, which we are still carrying over from 1921. In order to show the actual value of stocks, all poles have been reduced to present-day prices, and the amount which we are showing on the books at the present time represents the actual value of the stock on hand as at December 31, 1923. We have taken a loss of \$442,985.93 on poles and material, and this loss has been set up in our books as an Intangible Asset, to be written down over a period of 20 years.

Attention is directed to the possibility of still further losses, due to some overstocks with no market, and no prospects of our using the material.

By process of use, sale or writing down, Material stocks have been reduced by over \$1,000,000. The system is overstocked to the extent of almost \$400,000. This overstock should be disposed of on the best available market. I recommend this in place of carrying unusable materials with their attendant carrying charges. In disposing of surplus materials, the retention of a three-year supply for our own use is recommended.

Reserves.

Our Balance Sheet at December 31st, 1923, shows Reserves to the amount of \$904,693.21, and a special Capital Reserve of \$95,881.10. The Cash Reserves are made up as follows:

Replacement Reserve	\$455,095.84
Sinking Fund	449,597.37

After all Replacements have been paid for up to December 31st, 1923, there remains a cash balance of \$455,095.84. The purpose of this Reserve is to replace obsolete and worn-out Plant so that the original investment will be preserved as near as possible

and the Plant kept up to a reasonable standard. The amounts used for this purpose during the last few years are as follows:

1919.....	\$112,820.89
1920.....	137,849.48
1921.....	419,387.35
1922.....	233,540.89
1923.....	190,713.31

The Fund is naturally being depleted rapidly. Without substantial additions to the Reserve it will disappear within the next two or three years. It should be observed, too, that in the event of any extraordinary replacements being necessary the Reserve will disappear much faster.

Sinking Fund Reserve.

We have at the end of 1923 \$449,597.37 in our Sinking Fund Reserve, which is being set up for the purpose of retiring Bonds. We are contributing annually at the present time \$115,934.81 to this reserve, and the reserve has reached an amount which enables it to earn a considerable amount of revenue increasing annually. It will take approximately fifty-four years from the time this reserve started to retire the Bonds. One-half of one per cent. is set up annually on the total bonded debt.

Special Reserve.

The amount of \$95,881.10 appearing as "Capital Reserve" represents the reduction in Bonded Debt coming from the use of accumulated Sinking Fund in refinancing Bond issues during the year.

Rates.

The rates which we have in effect in the Telephone System yield insufficient return to pay the operating expenses of the System, the interest on the investment, the Sinking Fund and a reasonable Replacement Reserve. By comparison with other telephone systems in Canada and the United States the rates are low both in the cities and in the rural districts.

Careful consideration should be given to increasing the revenue in this Department sufficiently to provide for all fixed charges.

Remarks.

Plant extensions must be considered very carefully in future. The present policy is to extend lines only when the additional capital outlay can be justified by the estimated return. This policy should be continued.

The service—urban and rural—throughout the Province is of a high standard. This has no doubt been a factor in keeping our revenue where it is to-day, and has helped to bring about reduction in operating cost without affecting the service. Operating and Maintenance expense, however, have been reduced to what we consider the minimum, and any attempt to lower these costs much further will naturally reflect in the service, and I would not suggest that operating cost be cut to a point where service will be affected.

There are still some minor changes which will be made. These, however, will have little appreciable effect on operating expense.

Business conditions have taken a turn for the better, and it is expected that our revenues will improve during the next twelve months.

In conclusion, the present efficiency of the Department is largely due to a highly trained staff, a valuable asset to any System. To their effort and co-operation in economy is due the fact that the System has been able to operate successfully in the face of many difficulties.

I have the honour to be, Sir,

Your obedient servant,

R. B. BAXTER,

General Manager.

ALBERTA GOVERNMENT TELEPHONES.

BALANCE SHEET AS AT DECEMBER 31ST, 1923.

ASSETS:

PLANT IN SERVICE (at cost)—

Real Estate.....	\$ 1,059,276.08	
Equipment.....	3,089,186.85	
Exchange Lines.....	2,588,217.34	
Rural Lines.....	6,799,445.06	
Toll Lines.....	5,538,901.32	
	<hr/>	
	\$ 19,075,026.65	
Construction in Process..	32,909.81	
	<hr/>	
		\$ 19,107,936.46

INVENTORIES AND SUPPLIES—

Office Furniture.....	78,581.95	
Tools and Vehicles.....	39,796.09	
Supplies.....	808,937.64	
	<hr/>	
		927,315.68

CURRENT ASSETS—

Cash.....	300,364.83	
Treasury Department (cash and notes).....	566,351.33	
Accounts Receivable....	310,196.47	
Investments.....	528,299.83	
Interest receivable.....	18,183.51	
Prepaid expenses.....	46,012.45	
	<hr/>	
		1,769,408.42

SPECIAL FUNDS—

Depreciation and Renewal Fund.....	455,095.84	
Sinking Fund.....	449,597.37	
	<hr/>	
		904,693.21

INTANGIBLE ASSETS—

Debenture Discount.....	845,965.23	
Loss on Adjustment of Inventories.....	442,985.93	
Adjustment of Accrued Interest on Debentures	334,847.18	
Miscellaneous.....	19,755.71	
	<hr/>	
		1,643,554.05
		<hr/>
		\$ 24,352,907.82
		<hr/>

LIABILITIES:

DEBENTURE DEBT.....\$ 23,123,839.02

CURRENT LIABILITIES—

Accrued interest on de- bentures not due.....	\$ 334,847.18	
Unearned Revenue.....	10,402.77	
	<hr/>	
		345,249.95

RESERVES—

Depreciation and Re-	
newal Reserve.....	455,095.84
Sinking Fund Reserve...	449,597.37
Capital Reserve.....	95,881.10

\$ 1,000,574.31

LESS—

Loss on operations for	
the year 1923.....	116,755.46

883,818.85

\$ 24,352,907.82

A. M. MITCHELL,

Auditor.

Edmonton, March 3, 1924.

I have audited the books and accounts of the Alberta Government Telephones for the year ending December 31, 1923, and the above balance sheet is in agreement with the books at that date. The loss on operations for the year amounts to \$116,755.46, after providing \$115,934.81 for Sinking Fund.

I CERTIFY THAT in my opinion the above Balance Sheet represents the financial standing of the Alberta Government Telephones as at December 31, 1923.

JAMES C. THOMPSON, C.A.,

Provincial Auditor.

ALBERTA GOVERNMENT TELEPHONES.

STATEMENT OF CONDENSED EARNINGS FOR THE YEAR ENDING
DECEMBER 31, 1923.

REVENUE:

Exchange earnings.....\$	967,506.63	
Rural earnings.....	486,743.46	
Toll earnings.....	907,218.07	
	<hr/>	\$ 2,361,468.16

OPERATION AND MAINTENANCE:

Operation.....	926,337.85	
Maintenance.....	361,384.68	
	<hr/>	1,287,722.53
Net Telephone Earnings.....\$		1,073,745.63

ADD:

Directory earnings.....	13,068.55	
Miscellaneous.....	54,691.43	
Interest earned.....	82,424.93	
	<hr/>	150,184.91
		<hr/>
		\$ 1,223,930.54

DEDUCT:

Interest.....	1,194,072.52	
Contingencies.....	1,888.74	
Bank Commission and Exchange.....	28,789.93	
	<hr/>	1,224,751.19
Operating Deficit.....		820.65

ADD:

Sinking Fund Contri- bution.....		115,934.81
Total Deficit.....\$		<hr/> <hr/> 116,755.46

A. M. MITCHELL,
Auditor.

Certified Correct,

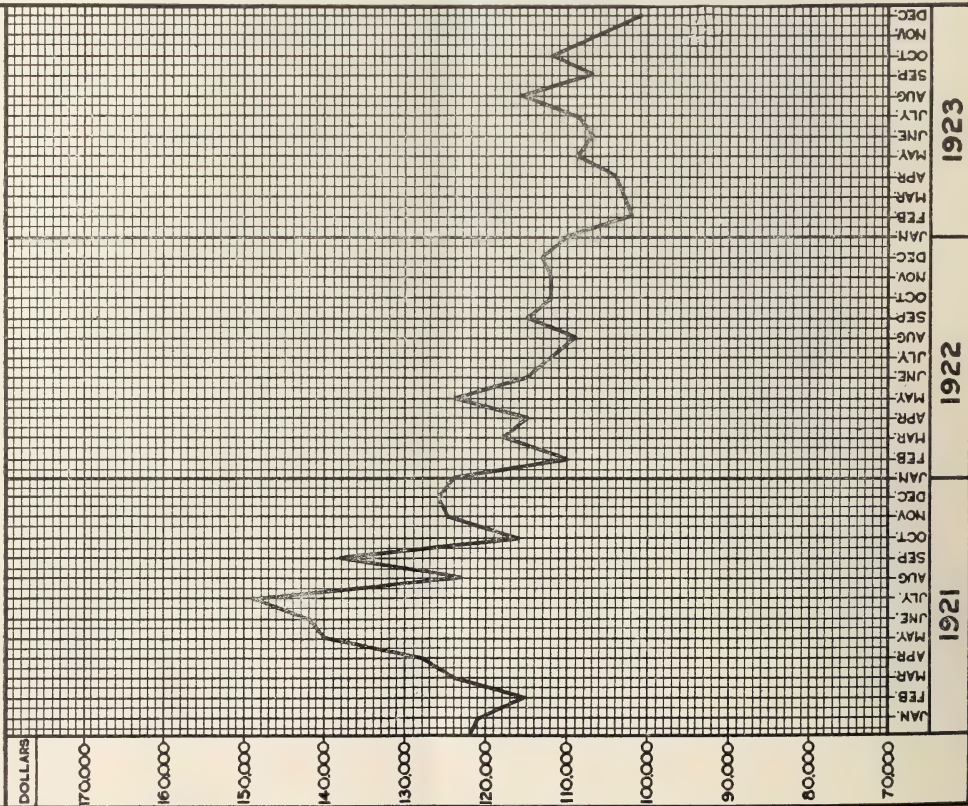
JAMES C. THOMPSON, C.A.,
Provincial Auditor.

CONDITION OF REPLACEMENT RESERVE FOR
PERIOD ENDED DECEMBER 31, 1923

Reserve December 31, 1922.....	\$	529,282.88
Addition to Reserve, 1923—Miscellaneous.....		116,526.27
		<hr/>
	\$	645,809.15
Charges against Reserve for 1923:.....		190,713.31
		<hr/>
Balance in Reserve December 31, 1923.....	\$	455,095.84

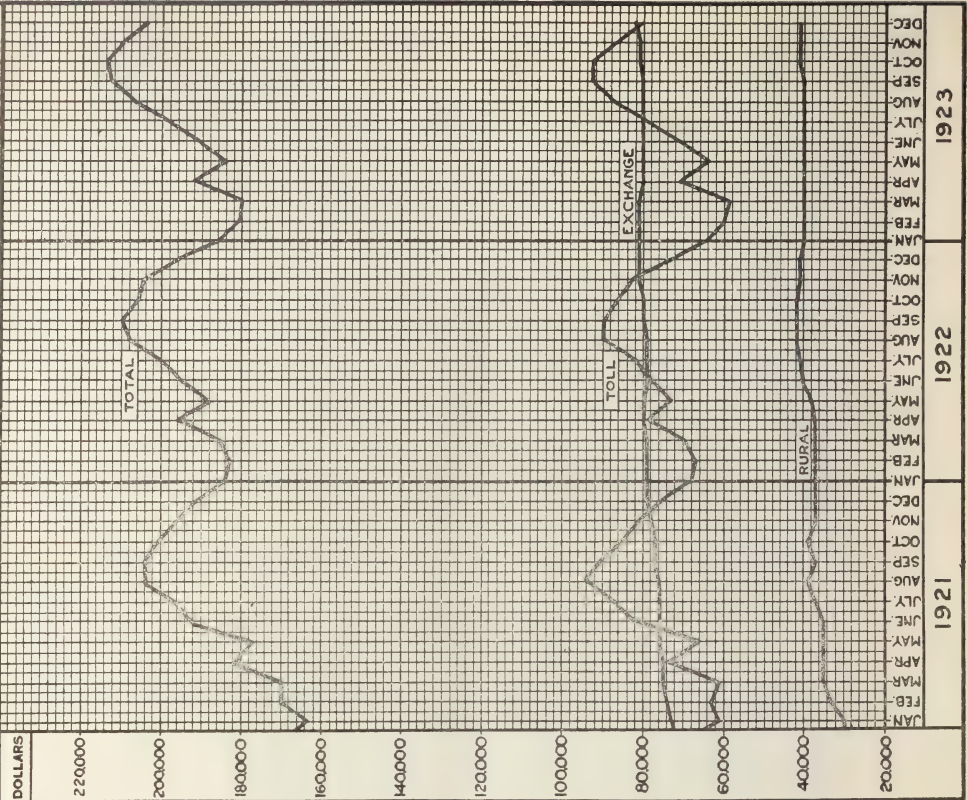
① TELEPHONE OPERATING COSTS

TREND JAN. 1st. 1921 - DEC. 31st. 1923.



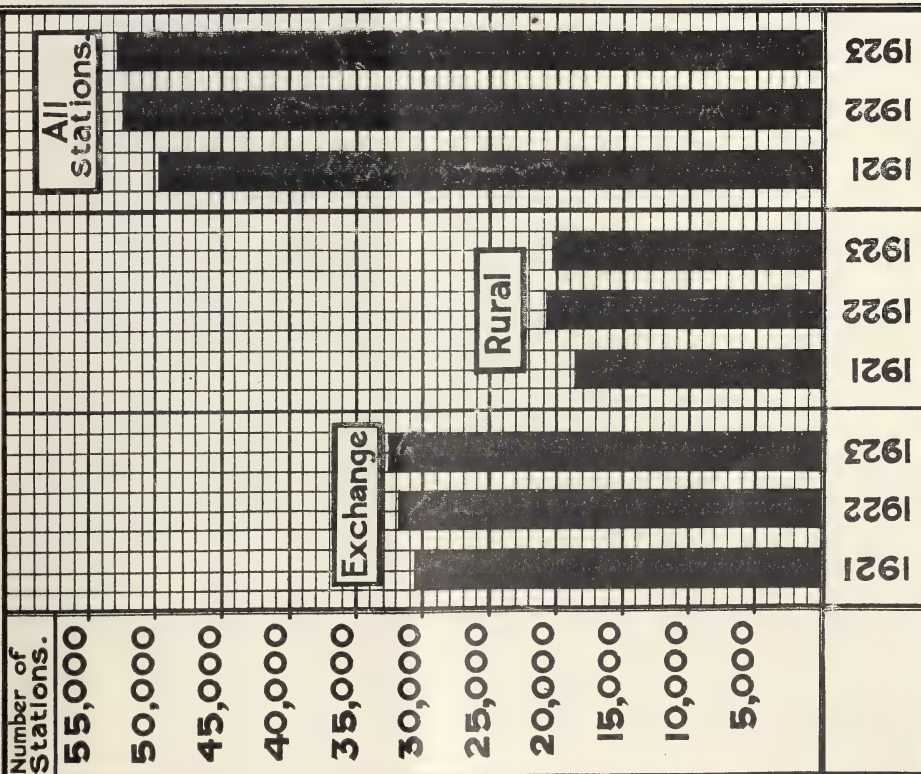
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TELEPHONE REVENUES



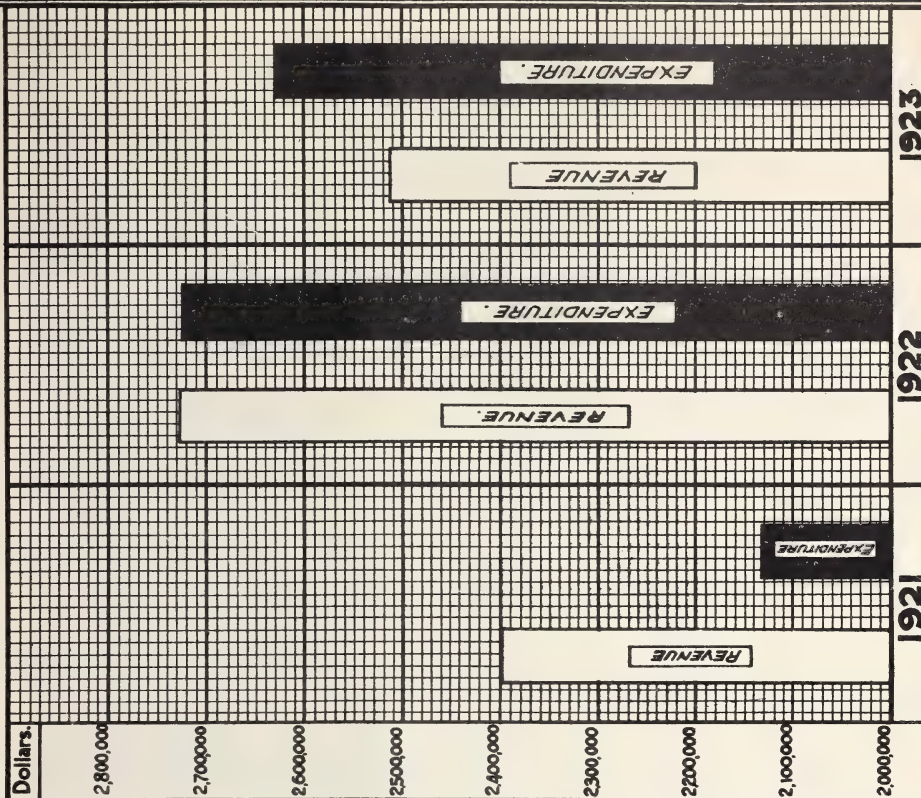
③

Station Growth.



④

Comparison of Gross Revenues with Gross Expenditures.



Note: All years show amounts above common level only (\$2,000,000).

COMMERCIAL

CONDENSED STATION REPORT, 1923

Exchange Subscribers' Lines.....	27,019
Exchange Extension Stations.....	2,447
Exchange P. A. X. Stations.....	67
Exchange P. B. X. Stations.....	2,231
Pay Stations.....	496
Toll Stations.....	301
Rural Subscribers' Lines.....	20,250
Total.....	52,811

STATEMENT OF EXCHANGE AND TOLL OFFICES
IN THE PROVINCE, 1923

Number of Alberta Government Telephone Exchanges..	264
Number of Alberta Government Telephone Toll Offices..	301
Number of Alberta Government Telephone Exchange Stations.....	32,260
Number of Alberta Government Telephone Rural Stations	20,250
Number of Privately Owned Party Lines.....	62
Number of Privately Owned Party Line Stations.....	1,085
Number of Connecting Exchanges.....	2
Number of Connecting Exchange Stations.....	13,383
Total.....	67,279

PLANT

TOLL WORK UNDERTAKEN AND COMPLETED, 1923.

Pole Miles.	Wire Miles.
19.00	47.00

Rural Subscribers added on Contract Work Orders throughout
Province:

Subscribers.....	1,084
------------------	-------

Total Rural Mileage Built 1923:

	Pole.	Wire.	Subs.
(a)	365.50	594.04	511
(b)	1084
Run-offs.....	75
	440.50	594.04	1595

TRAFFIC

GENERAL STATISTICS FOR YEAR ENDING DECEMBER 31, 1923.

Traffic Pay Roll Offices.....	37
Offices Giving Continuous Service.....	76
Offices Giving Semi-Continuous Service.....	9
Toll Centers.....	126
Tributary Offices.....	442
Number of "Out" L. D. Tickets completed and billed...	2,264,541
Number of "Other Line" Offices in Alberta connecting with this System.....	1
Number of "Other Line" Offices in Saskatchewan connect- ing with this System.....	455
Number of "Other Line" Offices in Manitoba connecting with this System.....	239
Number of Mountain States Telephone and Telegraph Company's Offices connecting with this System....	78
Number of Kootenay Telephone Lines Limited Offices connecting with this System.....	32
Total Number of Cities, Towns, and Hamlets in Alberta having telephone connection.....	969
Offices using Morse Service for Departmental Business..	2
Number of Physical L. D. Lines.....	251
Number of Phantom L. D. Lines.....	22
Number of Part Phantom and Part Physical L. D. Lines	32
Number of Simplex Telegraph Lines.....	1
Number of (Carrier) Multiplex Lines.....	2
Total Number of L. D. Lines.....	308
Phantom (Metallic) L. D. Circuit Mileage.....	2,864
Physical L. D. Circuit Mileage.....	35,552
Morse Simplex L. D. Circuit Mileage.....	202
Carrier L. D. Circuit Mileage.....	404

Included in the above data is the Peace River
District which is composed of the following:

Toll Centers.....	4
Tributary Offices.....	31
Number of Physical L. D. Lines.....	4
Number of Phantom L. D. Lines.....	1
Total Long Distance Mileage.....	599

